

REPORT

DATE: September 14, 2006
TO: Transportation and Communications Committee
FROM: Charlotte Pienkos, Government Affairs Analyst
SUBJECT: Propositions 1A and 1B

EXECUTIVE DIRECTOR'S APPROVAL:



RECOMMENDED ACTION:

Recommend a support position on Propositions 1A and 1B to the Regional Council.

SUMMARY:

Proposition 1A, a legislative constitutional amendment on transportation funding protection, and Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, will appear on the November 7, 2006 ballot. If approved by a majority of voters, the respective measures would safeguard revenues from the sales tax on gasoline for transportation purposes and would authorize the issuance of a total of \$19.925 billion in general obligation bonds for transportation and infrastructure development. Although the cost of Proposition 1B is significant, a support position is recommended for both measures in keeping with SCAG's adopted 2004 Regional Transportation Plan, its adopted 2006 Legislative Program, and in light of the acute need for transportation infrastructure development.

BACKGROUND:

Thirteen propositions have qualified for the November 7, 2006 ballot.¹ Two of them pertain to transportation issues under the jurisdiction of the Transportation and Communications Committee (TCC). Proposition 1A, a legislative constitutional amendment on transportation funding protection, was introduced by Senator Tom Torlakson (D-Antioch) as Senate Constitutional Amendment 7 and was enacted on May 9th (Chapter 49, Statutes of 2006). Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced by Senator Don Perata (D-East Bay), and was enacted on May 16th (Chapter 25, Statutes of 2006). If approved by a majority of voters, the respective measures would safeguard revenues from the sales tax on gasoline for transportation purposes and would authorize the issuance of a total of \$19.925 billion in general obligation bonds for transportation and infrastructure development.

Origins and Allocations

Proposition 1A

The State of California currently levies two types of taxes on motor fuels: the 18-cents-per-gallon excise tax and the statewide sales tax on gasoline and diesel fuel. This latter tax, which generates approximately \$2 billion a year in revenues, was the subject of Proposition 42 in 2002. In that election, voters approved a

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constitutional amendment to use tax revenues on the sale of gasoline exclusively for transportation purposes. Proposition 42 permitted the transportation funds to be diverted to other uses in the event of an emergency, with the approval of Governor, and with the approval by the Legislature by a two-thirds vote.

In the years that followed, Proposition 42 monies were used to shore up budget shortfalls, diverting billions of dollars to the General Fund. Although the borrowed funds are scheduled for repayment (and have, in fact, been partially repaid without interest), transportation advocates have rallied support to make future diversions of Proposition 42 funds more difficult. SCA 7 was introduced by Senator Torlakson to erect a “firewall” around Proposition 42. Upon its passage by the Legislature and signing by Governor Schwarzenegger, the Secretary of State certified it for the November 6th ballot at Proposition 1A.

Proposition 1A amends the State Constitution to require Proposition 42 suspensions to be treated as loans to the General Fund that must be repaid in full, with interest, within three years of suspension. Proposition 42 may be suspended only twice in ten consecutive years, and no suspension may occur unless prior suspensions (excluding those made prior to 2007-08) have been repaid in full. The Governor must still issue a proclamation of a severe financial hardship to the General Fund and the Legislature must approve it by a two-thirds vote.

Proposition 1B

Infrastructure development has been a stated priority of Governor Schwarzenegger this year. Proposition 1B resulted from a lengthy negotiation process between the Governor and leaders of both parties in the Legislature, including its author, Senator Perata, the President Pro Tempore of the Senate.

Proposition 1B authorizes the issuance of \$19.925 billion in general obligation bonds for the following purposes (main categories are shown in **bold**):

Congestion Reduction, Highway and Local Road Improvements	\$11.25 billion
Reduce congestion on state highways and major access routes	\$4.5 billion
Increase highways, roads and transit capacity	\$2 billion
Improve local roads	\$2 billion
Enhance State Route 99 capacity, safety, and operations	\$1 billion
Provide grants for locally funded transportation projects	\$1 billion
Rehabilitate and improve operation of state highways and local roads	\$750 million
Public Transportation	\$4 billion
Improve local rail and transit services	\$3.6 billion
Improve intercity rail	\$400 million
Goods Movement and Air Quality	\$3.2 billion
Improve movement of goods on state highways and rail system and in ports	\$2 billion
Reduce emissions from goods movement activities	\$2 billion
Retrofit and replace school buses	\$200 million
Safety and Security	\$1.475 billion
Improve security and facilitate disaster response of transit systems	\$1 billion
Provide grants to improve railroad crossing safety	\$250 million
Provide grants to seismically retrofit local bridges and overpasses	\$125 million
Provide grants to improve security and disaster planning in publicly owned ports, harbors, and ferry facilities	\$100 million

	TOTAL	\$19.925 billion
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SCAG Regional Share

The SCAG regional share of funding from Proposition 1B is unknown, but is likely to be distributed according to existing formulas and allocations. Those existing formulas and allocations result in current distributions of \$3.1 billion to the SCAG region.

In Proposition 1B, some funds will be allocated at the discretion of the appropriating authority, such as the California Transportation Commission, or they will be appropriated by future enabling legislation. It is anticipated, however, that a large share of bond funds related to port and trade infrastructure and air quality will be appropriated to the region, given its large share of the state’s overall goods movement volume. These discretionary appropriations will likely increase the total amount of funds from this bond flowing to the region to \$8 billion or more.

Support for the Propositions

Proposition 1A

Proposition 1A is supported by a vast number of transportation, labor, business, government, and public health advocates including the League of California Cities, the California Chamber of Commerce, and the Howard Jarvis Taxpayer Association. The proposition has been endorsed by Governor Schwarzenegger and many state and local elected officials.

Proposition 1B

Proposition 1B is supported by California Chamber of Commerce, California Taxpayers’ Association, California Labor Federation, California Air Resources Board, State Building & Construction Trades Council, League of California Cities, and Orange County Business Council.

Opposition to the Propositions: The Cost of Bonding

There is little organized opposition to Propositions 1A or 1B.

The effect of the bonds on California’s fiscal health warrants additional consideration. If Proposition 1B is approved by the voters, it will indebt the State of California to the amount of \$19.925 billion in principal or \$38.9 billion total over the life of the bond. Proposition 1B will be repayable from General Funds, thereby making \$1.3 billion unavailable every year for other uses. Proposition 1B is a general obligation bond, not usable for operations and maintenance. The Legislative Analyst’s Office states that these O & M costs are unknown, “but could be in the tens of millions of dollars per year.” Those monies are not currently budgeted and would be payable from the General Fund, even as it absorbs debt repayments. Annual O & M costs may be offset by revenues generated by the improvements, such as transit fares and tolls.

The effect of the passage of Proposition 1B on the state’s debt-service ratio is dependent on whether other propositions pass. The Legislative Analyst’s Office estimates that if all five general obligation bonds on the ballot pass, the state’s debt will rise to 5.9 % of annual revenues in 2010-2011 and decline thereafter.

Position Recommendation

SCAG has strongly supported erecting a “firewall” around Proposition 42, the foundation of Proposition 1A, since the first borrowing occurred against those revenues in 2003-04. Protecting Proposition 42 revenues is a key component of both the adopted 2004 Regional Transportation Plan (RTP) and the adopted 2006 Legislative Program.

SCAG has also shown support for using general obligation bond measures to finance infrastructure improvements in the past for water system improvements. Proposition 1B would make billions of dollars available to the SCAG area for badly needed transportation infrastructure improvements, such as those in the RTP.

Staff recommends a support position for Propositions 1A and 1B in keeping with SCAG’s adopted 2004 Regional Transportation Plan, its adopted 2006 Legislative Program, and in light of the acute need for transportation infrastructure development.

FISCAL IMPACT:

Adopting the recommended position has no fiscal impact on SCAG.

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Legislative Constitutional Amendment
Proposition 1A: Transportation Investment Fund

Legislative Bond Act
Proposition 1B: Highway Safety, Traffic Reduction, Air Quality, Port Security Bond Act of 2006

Legislative Bond Act
Proposition 1C: Housing and Emergency Shelter Trust Fund Act of 2006.

Legislative Bond Act
Proposition 1D: Kindergarten-University Public Education Facilities Bond Act of 2006.

Legislative Bond Act
Proposition 1E: Disaster Preparedness and Flood Prevention Bond Act of 2006.

Initiative Statute
Proposition 83: Sexually Violent Predators, Punishment, Residence Restrictions and Monitoring.

Initiative Bond Act
Proposition 84: Water Quality, Safety and Supply, Flood Control, Natural Resource Protection, and Park Improvements.

Initiative Constitutional Amendment
Proposition 85: Waiting Period and Parental Notification before Termination of Minor's Pregnancy.

Initiative Constitutional Amendment and Statute
Proposition 86: Tax on Cigarettes.

Initiative Constitutional Amendment and Statute
Proposition 87: Alternative Energy, Research, Production, Incentives, and Tax on California Oil.

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Initiative Constitutional Amendment and Statute

Proposition 88: Education Funding, and Real Property Parcel Tax.

Initiative Statute

Proposition 89: Political Campaigns, Public Financing, Corporate Tax Increase, Contribution and Expenditure Limits.

Initiative Constitutional Amendment

Proposition 90: Government Acquisition and Regulation of Private Property.